Chinese Modernization: Spearheading New Globalization and Inspiring an Emerging Field of Study

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Abstract: *This paper identifies three aspects in which Chinese modernization may have a profound influence on the global economic landscape after examining China's changing role in the global economy over the past millennium. First, since 2006, the Chinese economy has been the largest driver of global economic growth, and this rapid growth is expected to continue until 2060. Second, the Chinese economy has the potential to spearhead a new form of globalization due to China's market size, increasing innovation, and strong government coordination. Third, Chinese modernization is characterized by a government-market synergy in which the government fosters and regulates the market economy rather than taking its place. In this respect, Chinese modernization may bring about an emerging field in economics: government and economics, and hence make important contribution to the development of economic study.*

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1. Introduction

China's rapid economic development since 1978 ushered in a new concept: Chinese modernization, so named because China's path towards modernization has been different from those of Western countries and East Asian countries like Japan and South Korea. The significance and potential future course of Chinese modernization merits the attention of academics from not only China but worldwide as well.

The purpose of this paper is to examine how Chinese modernization may influence the global economy and economic thinking, beginning with a review of China's place in the global economy over the past millennium. Our review shows that historically, the Chinese economy was at times the most important economy in the world. At the end of the Ming Dynasty (around 1600 A.D.), China comprised about 34.6% of the global economy, but its share began to decline after that. With this in mind, this paper investigates the effects of Chinese modernization on the global economic landscape in three aspects.

First, data from the World Development Indicators Database shows that China is already the largest economy in the world on the basis of purchasing power parity. Based on the projection that the Chinese economy is likely to maintain a growth rate above the global average, we expect the Chinese economy to continue to serve as the world's largest growth engine until as late as 2060.

Additionally, Chinese modernization may allow the Chinese economy to lead a new form of

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globalization due to the following factors. First, China has the largest unified market in the world; second, China is becoming more innovative and has begun to foster new industries; and third, the Chinese government has made it a priority to balance competing interests. These conditions compensate those left behind, and may encourage beneficiaries of globalization to support deeper and broader globalization. Thus, we believe that the Chinese economy is poised to lead a new form of globalization on account of these factors.

Furthermore, another distinctive aspect of Chinese modernization is that the government and market work together with the government aiming to foster and regulate the market rather than taking its place. The practices of Chinese modernization may help bring about an emerging field of study: government and economics, hence generating significant impacts on economic thinking as well as the path of modernization in other countries.

The remainder of this paper is organized as follows: Part 2 discusses the historical significance of Chinese modernization; Part 3 presents our forecast for the Chinese economy; Part 4 argues that Chinese modernization will give China the potential to spearhead a new form of globalization; Part 5 elaborates on the characteristics of Chinese modernization and its possible contributions to the development of the field of economics, focusing on the implications of government and economics; and the final section provides a summary.

2. Historical Significance of Chinese Modernization

We claim that Chinese modernization is of historic significance to human economic development and has transformed the world economy. Applying historical national accounting methods, Jin et al. (2019) systematically estimated China's share of world GDP from 1000 A.D. to 2017, and found that from 1000 A.D. to 1978, China's share of global GDP initially rose and then declined. Specifically, the share increased from 26.6% in 1000 A.D. to a peak of 34.6% in 1600 (see Figure 1). However, after the occurrence of Industrial Revolution in the West, China’s share of the global economy declined drastically, reaching 5. 2% by 1952 and 4.9% by 1978. Jin et al. (2019)’s re-assessment of the evolution of the share of China in the global economy is a modification to Maddion’s guesstimation, according to which China’s share of world GDP peaked twice around 1600 and 1820.

In the past 400 years, China’s modernization has had a significant impact on the global economy from the perspective of economic history as well. In the four decades since China’s policy of “reform and opening up”, China has experienced the world’s highest amount of economic growth in terms of magnitude. According to Li et al. (2021), China’s share of global GDP rose from 4.9% in 1978 to 18.2% in 2017 based on purchasing power parity (PPP), and this represents the country’s first economic revival

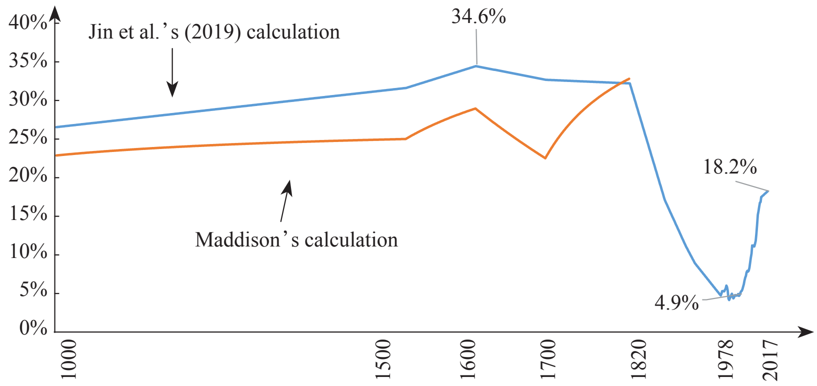

Figure 1: China’s Share of Global GDP, 1000-2017 A.D.

Source: Jin et al. (2019).

in five centuries. In comparison, the United Kingdom's GDP as a share of the world total only increased from 3.8% to 5.9% in the four decades following the Industrial Revolution; the United States saw its share of the global GDP only rise from 7.9% to 17.3% in the four decades after the Civil War; in the four decades since the World War II, Japan's GDP as a share of the world only expanded from 3.3% to 8.9%; and the Asian Tigers saw their GDP as a share of the world total only grow from 0.7% to 3.5% in their four-decades of rapid growth.

Sharp rise in income per capita has accompanied with the growth of the aggregate economy. According to World Bank and Development Research Center of the State Council (2022), over the past four decades, the number of people in China with income below the World Bank's absolute poverty line has fallen by close to 800 million, contributing more than 70% to the global reduction in the number of people living in extreme poverty. China has achieved the first UN Sustainable Development Goal, target 1.1. of eradicating extreme poverty ten years ahead of schedule.

3. China's Emergence as the Locomotive of Global Economic Growth

According to our calculation based on the World Development Indicators Database, China has emerged as the world's largest economy on the basis of purchasing power parity, and has been the largest contributor to global economic growth since 2006, contributing some 30% to global GDP growth over this period. From 2013 to 2021, China contributed even more, an average of 38.6% to global economic growth. Moreover, the Chinese economy maintained positive growth during the hardships of the global financial crisis of 2009 and the outbreak of COVID-19 in 2020.

We have estimated the long-term trend of China's contribution to global economic development using the OECD (2021)'s projection of GDP growth rates for major global economies between 2020 and 2060 (see Table 1). According to this projection, we expect the Chinese economy to contribute an average of over 24% to global GDP growth prior to 2040, and to remain the largest contributor to global economic growth until 2060. Notably, the OECD (2021)'s projection of China's economic development tends to be conservative, assuming its average GDP growth rate to be 4.6% (2023-2030), 2.5% (2031-2040), 1.3% (2041-2050), and 1.3% (2050-2060), maintaining the same growth rate as the United States in the most recent two decades.

The OECD (2021)'s conservative projection for China's economic development may have accounted for China's declining and aging population. However, the economic effects of the health and education of the Chinese population were neglected. According to Li et al. (2022), the Chinese economy may be able to offset the adverse growth effect of a declining population and maintain a potential growth rate above 4% before 2050 if its human resources can be effectively fully utilized[1]. Using this growth

Table 1: Projected Contributions of Major Economies to Global GDP Growth (%)

Timeframe	China	US	India	EU
2023-2030	25.6	15.4	7.4	8.9
2031-2040	24.1	14.2	9.3	6.6
2041-2050	19.1	16.8	10.0	7.7
2051-2060	17.6	17.1	9.9	9.5

Source: Authors' estimation based on information from the World Bank's WDI database and OECD (2021).

[1] After a precise estimation using a new analytical framework, Li et al. (2022) determined that China's total human resources would continue to maintain steady growth through 2040 and then remain steady until 2050, if taking into consideration the increase in the health and educational attainment. They expected the average growth potential of the Chinese economy to be 5.9% between 2021 and 2030, 4.9% between 2031 and 2040, and 4.1% between 2041 and 2050.

rate, China's contribution to global GDP growth may exceed that using the OECD (2021)'s projection. As such, Chinese modernization may continue to be the greatest driver of global economic growth as late as 2060.

4. Leading a New Globalization

After the financial crisis of 2007-2008, the average global economic growth rate is lower than three decades before the crisis, which shows a slower world economic growth trend. Globalization has entered a period of stagnation and retrogression since the US raised tariffs on certain goods originating from China and other countries and the United Kingdom left the European Union. Amid this and other worldwide backlash against globalization, China has the potential to lead a new form of it.

After reviewing the history of globalization, Li et al. (2022) analyzed the trend in "new-type globalization," and characterized globalization as essentially the liberalization of trade, investment and flow of people and argued that it had to be championed by a "leading" nation. Based on a theoretical model of international trade, the authors came up with the "globalization leadership theory" (GLT) to examine how the global economy evolved from autarky to an open equilibrium. The theory considers that the process of globalization is neither spontaneous nor advanced by a single hegemon, but is the result of interactions between various economic entities after an active leading nation initiates agreements for globalization.

Notwithstanding various economic groups benefit from globalization, there is a cost of maintaining globalization for individual countries, thus governments need to perform a cost-benefit analysis and balance economic interests of various groups before deciding to open up. The GLT proposed by Li et al. (2022) highlight the importance of governments in making decisions to participate in free trade, arguing that the strategic interactions between governments determine whether globalization can materialize. Since it is focused on the cross-border trade and consumption of goods, the GLT explains how the globalization of production could occur and develop based on the characteristics of technological differences, increasing returns to scale, and imperfect competition.

Our model on the globalization leadership theory divides the strategic interactions and decisions of participants into three stages, and finds that the leader must meet a certain condition to advance from one stage to the next. As shown in Figure 2, in the first stage, the technological leader calls for "opening up" because globalization could broaden international market access and increase revenue for its technologically advanced industries with increasing returns to scale. In the second stage, technological follower nations decide whether to follow the leader by also opening up, which depends on the attractiveness of incentives offered by the technological leader. In the third stage, the government balances inequalities stemming from globalization by collecting tax from the groups who benefit from

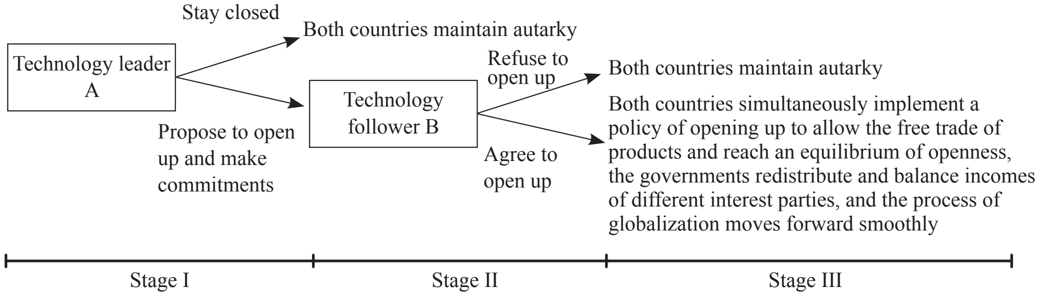

Figure 2: Three-Stage Strategic Interactions between the Leader and the Follower in the Globalization Leadership Model

Source: Li et al. (2022).

globalization and compensating the loss of others, which ensures the practicality and sustainability of the globalization policy.

Li et al. (2022) identified three prerequisites for a country to lead globalization. First, technological superiority: The leading country must have thriving high-tech sectors and maintain the technological superiority. With economies of scale from R&D, high-tech sectors benefit the most from globalization. Second, market advantage: The leading nation must have a large enough home market to set an example by opening up and attracting other countries to follow suit. Third, the redistribution system: the leading nation must be able to redistribute domestic interests with tax and transfer.

Due to the advantages in technology and market, Great Britain initiated economic globalization in the early mid-19th century. She reformed the tax system in 1842, and improved workers' living conditions by a series of legislation (such as Metropolitan Poor Act 1867 and Housing of the Working Classes Act 1885) and maintained the leader position until the eve of the World War I. Similarly, after World War II, the United States emerged as the leader of a new round of globalization. For the United States, Donald Trump's presidency lit the fuse that set off a firestorm of anti-globalization backlash.

The United States turned free trade to higher-tariffs and protectionism because she was losing the leadership position in the global marketplace. First, the United States no longer leads the world in output of certain technologies, such as automobiles. Second, the US domestic market has shrunk in relative terms, and is no longer the largest in the world. Feenstra et al. (2015) estimated US GDP as a share of the world's total to have declined from 31.3% in 1960 to 16.6% in 2019 by purchasing power parity (PPP)[2]. Third, middle class and low-income people in the United States feel disadvantaged and increasingly oppose globalization (Milanovic, 2016)[3].

After four decades of development since 1978, China has the potential to emerge as the new leader of globalization by taking steps to meet the above-mentioned three conditions. First, China's unified national market is becoming the largest consumer market in the world. According to a report published by the World Bank in 2020, China had already surpassed the United States as the world's largest economy by PPP in 2017. China has also been taking the initiative to open up; one example of this is the China International Import Expo (CIIE), which has been held for five consecutive years to promote trade and globalization[4]. Second, China's increasing innovation and rapid advances in high-tech sectors provide technological strength for steering the course of globalization. Each year, forty percent of the ten million college graduates who enter the workforce in China are engineering graduates. The annual number of patent applications and approvals since 2019, as well as the publication and citation of research papers also place China at the top of the global rankings[5]. Thus, we believe that China may become the global leader in high-tech sectors in the near future. Rapid growth in the digital economy is also triggering a new round of technological and industrial transformations that are driving global economic growth and reshaping the global competitive landscape. Finally, the Chinese government is able to coordinate domestic interests in an attempt to mitigate globalization-related shocks to various regions and sectors. Indeed, the Chinese government has pledged to make common prosperity the focal point of China's social and economic policymaking.

[2] According to the World Bank, US manufacturing value-add stood at 2.34 trillion US dollars in 2019, accounting for only 10.9% of US GDP, and its proportion in global total manufacturing value-add fell to 16.8%.

[3] According to the US Federal Reserve System, the wealth Gini coefficient in the US rose from 0.78 in 1992 to 0.86 in 2016 and remained at this level in 2019. In September 2022, the US Census Bureau reported a record high US income Gini coefficient, which reached 0.494 in 2021, up 1.2% from the previous year.

[4] According to the United Nations, China's share in global trade increased from less than 1% in 1978 to nearly 15% in 2020, making it the largest trading nation in the world. Since 2009, China has been the world's largest exporter and the second-largest importer.

[5] See data from the World Intellectual Property Organization (WIPO), https://www3.wipo.int/ipstats/searchForm.

5. Contributions of Chinese Modernization to Economics

Aside from serving as the global economy's primary engine and the leader of globalization, China's growth story is also the story of Chinese modernization. The West often views Chinese unique economic thinking and practices as being difficult to understand, sometimes even as a heterodox. Yet we claim that there is more to it than that. More than that, we hope that China's emergence as the leader of globalization will cause the country's economic tenets to garner attention and serve as theoretical and practical reference for economic development in other developing nations.

5.1 Chinese Modernization: Real-world Experience for the Development of Economics

The development of the study of economics stems from significant real-world economic practices. Li et al. (2018) found that over the past three centuries, important economic philosophies and theories all originated from economic practices, demonstrating the inseparable relationship between the history of economic thought and the history of economics. Earlier than 700 B.C., Chinese philosopher Guanzi put forth his philosophies on state governance involving the control of salt and iron to enrich public finance, which marked an elevation of economics from family management to the management of feudal dynasties. In this respect, certain Chinese economic philosophies have preceded those of ancient Greece, Persia, and many other civilizations.

The British Industrial Revolution gave rise to many economic philosophers, including Adam Smith, who trumpeted free trade and free economies, David Ricardo, who devised the theories of differential rent and comparative advantage, and Karl Marx, who came up with the theory of surplus value. US economic preeminence since the early 1900s inspired research on the theory of industrial organization and the theory of the firm as well. After World War I, economic and financial crises led to popularity of Keynesian macroeconomics, state interventionism, and social welfare policies. These economic philosophies and theories are based on the observations of economic practices in various stages of capitalism and have influenced subsequent economic practices in various countries.

However, not all remarkable economic practices may have a far-reaching influence on economic philosophy. Indeed, the British Industrial Revolution and US economic dominance have propelled the development of economics. Yet many other nations have also achieved phenomenal economic growth, such as Germany between its unification in 1871 to the eve of World War I, Italy before World War II, and Japan after the Meiji Restoration of 1868, but none of them has engendered academic theory and school of thought similarly influential as their economic practices in the history of economic thought.

We hold that for any major economic practice within a country to create a new economic theory, it must meet three criteria. First, the country must develop its economy sustainably and must benefit other countries as well, and its economic practices must propel human progress and improve the general welfare. In the above-mentioned countries of Germany, Italy, and Japan, aggression followed economic success, wreaking havoc on neighboring countries and the global economy as a whole. Second, an economic practice must be unique and cannot be just simple replications like Japan's post-war experience. Third, the home country's economic academia must have awareness of independent innovation and make efforts to achieve it.

China has already satisfied those criteria. First, as argued in Part 1 of this paper, Chinese modernization is irreversible and is poised to drive global economic growth in the near future. The Chinese economy is expected to develop steadily over an extended period of time as China attempts to complete its modernization. In addition, China is committed to opening up at a higher level, and through its Belt and Road Initiative (BRI), to benefiting other countries, particularly developing countries. China thus has the potential to lead a new form of globalization. Second, Chinese modernization is a unique path towards modernization, and third, the Chinese academies of economics, philosophy, and social sciences have a strong awareness of indigenous innovation, placing a premium on Chinese characteristics, style, and spirit.

5.2 The Government's Role in Fostering and Regulating the Market Economy: A Distinguishing Feature of Chinese Modernization

The uniqueness of China's economic development must be considered when developing a new economic theory. In the realm of scientific research, scientific progress has often arisen from incidental events or special experiments. The same is true for the field of economics: economic theories of universal significance always can be refined from particular practices. Indeed, China's economic development has been influenced by mature economic theories from throughout human history, such as the protection of property rights, market liberalization, and price deregulation advocated by Western economists. Yet we also acknowledge that China's economic development is distinctive, and that new economic philosophies and theories can be derived from its unique economic activity.

Such uniqueness resides in the current Chinese government's role. Chinese modernization is characterized by its government-market synergy, in which the government encourages and regulates the development of the market economy rather than hindering it. Li (2021) summarized the following lessons from China's "reform and opening up" over the past four decades. First, the government should facilitate the fast entry and development of new firms; second, the government should bring about rapid land conversion from agriculture to industrial use; third, the government should promote financial deepening and stability; fourth, the government should adhere to opening up with a learning-centered approach; and fifth, the government should proactively manage the macroeconomy.

In recent years, additional economic research has been conducted on Chinese modernization. Li (2021) examined the characteristics and new development issues of Chinese modernization in the context of economic and social restructuring and conducted an empirical sociological review, and the Chinese Modernization Research Group (2022) elucidated Chinese modernization's characteristics, theoretical foundation, economic outlook, risks, and challenges. Hong (2022) outlined Chinese modernization's economic goals, implementation strategy, and institutional guarantees. These studies provide an in-depth analysis of the multifaceted questions of Chinese modernization from historical and sociological perspectives, but provide no systematic analysis of government's role in economic practices. Further research is therefore required to discuss the method, behavior, and incentives for government participation in economic activity.

5.3 Government and Market Economics: An Emerging Field of Study in Economics

Although important they are, economic philosophies and schools of thought cannot have a long-lasting effect on the history of economics unless they are recognized as a distinct subfield of economics in their own right. For instance, the Marxist economic philosophy spawned Marxist political economics, the Keynesian economic philosophy led to Keynesian macroeconomics, and the Scandinavian school of welfare economics inspired Scandinavian welfare economics. All three of these philosophies spawned branches of economics that continue to receive significant attention. We argue that China must elevate the development of economics from a Chinese school of economics and Chinese philosophy to type of economics that reflects its school of thought and economic philosophies.

Research on government and Economics aims to examine government's role, behavior, and incentives in a modern market economy, as a new branch of economics. The significance of research in this field, according to Li and Maskin (2021), is predicated on three observations. First, government plays an important role in the modern market economy. For example, government expenditure accounts for more than 30%, and sometimes north of 50%, of GDP. Second, government performance directly determines economic outcomes of the market. In diverse market economies, government involvement in market economic activity varies greatly. Third, government performance is endogenous and subject to government and market institutional arrangements. In this regard, reasonable institution should be developed to limit and provide incentives for government involvement in market economic activity.

As a new field of study, government and market economics are both similar to and distinct from existing fields within economics. First, political economics does not explicitly underscore the role of government. Second, unlike public economics, which generally assumes the goal of government is to maximize social welfare, government and economics considers government objectives to be endogenous and related to institutional design. Third, government and economics aims to break free from development economics, which emphasizes the problems associated with economic development and governmental policymaking. Numerous problems confronting some developed economies, the United States, for example, are also rooted in government and market economics and must be addressed through institutional reforms. Fourth, social welfare and social choice consider the role of government as a black box, presuming the government to be able to implement the most effective social welfare distribution schemes as devised by academics. Last, comparative economics investigates the government and economic institutions as exogenous research subjects.

We view government and market economics as a crystallization of Chinese economic thinking and practices. China had strong governments for a long time, and throughout much of history, a robust government suppressed the growth of the market economy. However, since the reform and opening up policy was adopted in 1978, China's rapid economic resurgence can be explained with government and economics in the following ways. First, the government must have proactively fostered the market and steered its course, and second, government incentives must have been partially derived from economic development so as to oblige local governments to foster local economic development and align their actions to this objective.

Government behavior and its manifestations are the result of its incentives. Therefore, it is essential to determine proper corresponding institutions. For example, we contend that the political appointment or election of a government official, as well as the evaluation from a higher level of government or a local election, must be correlated with local economic performance. Second, the collection of taxes from businesses or individuals creates completely different incentives for government officials: If tax revenues are collected from individuals, government officials will not be closely concerned with local economic activity. If local governments count businesses as their primary source of tax revenues, officials must consider the local business environment and corporate development. The existing economic literature has examined government's role, behavior, and incentives in economic activity at the micro level (Zhou, 2004; Tang et al., 2010; Yu and Gao, 2012) and macro levels (Guo and Jia, 2006) without depicting the endogenous mechanism of government behavior and designing incentives, which represent a direction of further investigation for government and economics.

5.4 Developing New Methodologies for Research on Government and Market Economics

Government and market economics must be contextualized within each specific economic issue, such as how to collect property tax, how to design a tax system for decarbonization, and how to steer the technology sectors' development. In addition, research methodology must be innovative and combine case studies (Case), theoretical analysis (Theory), and statistics (Statistics) to elucidate the mechanism of behavior and provide rigorous and systematic empirical analysis.

Initiated in 2019 in an effort to foster a better understanding of the government's role in the market economy, as well as the government's incentives and behaviors, the Society for the Analysis of Government and Economics (SAGE) has hosted a series of seminars and annual conferences to promote the study of government and economics. The launch of the Journal of Government and Economics, an international English journal, has provided a brand-new and high-level platform for the exchange of insights on related topics and received support from senior scholars in mainstream economics. We have no doubt that these efforts will advance deeper and further research in this emerging field of study.

6. Concluding Remarks

Chinese modernization is a significant event in economic history, and this paper examined the influence of Chinese modernization on both the global economy and economic philosophies. First, Chinese modernization has transformed the global economic landscape. Our comparative study shows that China has experienced the highest economic growth ever recorded spanning forty years. We expect the Chinese economy to contribute an average of over 24% to global GDP growth before 2040 and remain the largest contributor until 2060, as a result of its sustained economic growth and rising share in the global economy.

China also has the potential to lead a new form of globalization in the context of the current backlash against globalization. With the formation of a unified domestic market, China boasts the largest consumer market in the world. China has made swift advances in technological innovation and its high-tech sectors have created certain technological strengths that put it in a position to lead globalization. The Chinese government's operational mechanism also guarantees its capacity to coordinate domestic interests. Finally, we deem it necessary that while beneficiaries partake more actively in globalization, those who suffer should be adequately compensated. These conditions afford China the opportunity to take the initiative to open up its trade relationships and to become the leader of globalization.

In conclusion, Chinese modernization has the potential to generate new economic thoughts, theories, and innovations. Government-market synergy is a fundamental aspect of Chinese modernization, in which government plays an essential role in fostering and regulating the market. Furthermore, China's economic growth is both exceptional in its durability and instrumental to the development of other countries. These characteristics provide the foundation for the innovation of economic theories. In particular, government and economics investigates government's role, behavior, and incentives in the market economy. This represents a contribution of Chinese modernization to the development of economics as a discipline, which may yet influence global economic philosophies and modernization in other countries as well. CE

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